

**CONTINUED FORBEARANCE ON LOANS  
AFFECTED BY HURRICANES KATRINA AND RITA**

1. PURPOSE. This circular requests continued forbearance for VA home loan borrowers affected by the enormity of Hurricanes Katrina and Rita. This change clarifies that VA will consider all appropriate forbearance to be VA-requested for purposes of determining whether or not VA will specify an amount for credit in connection with a termination sale, thereby giving the holder an option to convey property to VA.

2. Effective immediately, Circular 26-05-09 is changed as follows:

Page 2: After existing paragraph 7 add

“8. DETERMINATION OF SPECIFIED ADVICE. If a loan affected by these disasters is eventually terminated, VA will calculate the net value and total indebtedness to determine whether or not an amount should be specified in connection with the liquidation sale. Should the initial calculation disclose that the un-guaranteed portion of the loan exceeds the net value of the property, then VA will recalculate the eligible indebtedness only to the time of the applicable disaster. If the resulting indebtedness, less VA’s maximum guaranty, is less than the net value, VA will specify an amount for credit to the indebtedness and thereby give the holder the option of conveying the property to VA. In such a case the claim payable will not be restricted to the date of disaster, but will be subject only to VA’s maximum guaranty. This procedure will be followed on all loans affected by the disasters, as VA has requested that holders extend appropriate forbearance on all such loans. It will also apply to cases described in paragraph 3, involving delay due to difficulty in contacting borrowers to determine appropriate courses of action.

9. ADVANCE AND MODIFICATION REMINDERS. VA regulation 4313 (title 38, Code of Federal Regulations (CFR), section 36.4313) provides authority for a holder to advance funds for maintenance or repair of a security property. Also, 38 CFR 36.4314 gives authority for a holder to extend or modify a loan, or to recast terms to include an existing loan and an additional proposed loan for repairs. While the authority is limited somewhat, the regulation indicates that prior approval from VA may be sought to modify a loan in a manner other than that specifically stated in the regulations. Holders are encouraged to discuss any possible combinations of advances, repair loans, and/or modifications with the VA Regional Loan Center of jurisdiction.”

Page 2, paragraphs 8 and 9: Redesignate as paragraphs “10 and 11”.

By Direction of the Under Secretary for Benefits

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